

ARMY AND AIR FORCE EXCHANGE SERVICE (AAFES): ITS RELEVANCE

BY

COLONEL FREDRICK J. HANNAH
United States Army

DISTRIBUTION STATEMENT A:

Approved for Public Release.
Distribution is Unlimited.

USAWC CLASS OF 2011

This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.



U.S. Army War College, Carlisle Barracks, PA 17013-5050

The U.S. Army War College is accredited by the Commission on Higher Education of the Middle State Association of Colleges and Schools, 3624 Market Street, Philadelphia, PA 19104, (215) 662-5606. The Commission on Higher Education is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

REPORT DOCUMENTATION PAGE				Form Approved OMB No. 0704-0188	
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing this collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.					
1. REPORT DATE (DD-MM-YYYY) 24-03-2011		2. REPORT TYPE Strategy Research Project		3. DATES COVERED (From - To)	
4. TITLE AND SUBTITLE Army and Air Force Exchange Service (AAFES): Its Relevance				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S) Colonel Fredrick J. Hannah				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Colonel Ronda Urey Department of Military Strategy, Planning, & Operations				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING / MONITORING AGENCY NAME(S) AND ADDRESS(ES) U.S. Army War College 122 Forbes Avenue Carlisle, PA 17013				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION / AVAILABILITY STATEMENT Distribution A: Unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT Throughout an era of constant changes in global dynamics, technology, personnel reductions, base realignments, significant budget deficits and growing commercial retail competitors, many within the Department of Defense (DOD) have questioned the relevance of the Army and Air Force Exchange Services (AAFES). This Strategic Research Project (SRP) explores this issue through analysis of its governing statutes and regulations, its strategic mission, and the benefits it provides to its cliental. It finally considers whether competitive commercial retailers could better serve the military community - demonstrating that AAFES is a competitive retailer in today's global marketplace and maintains its strategic relevancy within DOD.					
15. SUBJECT TERMS Military Post Exchanges					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT UNLIMITED	18. NUMBER OF PAGES 28	19a. NAME OF RESPONSIBLE PERSON
a. REPORT UNCLASSIFIED	b. ABSTRACT UNCLASSIFIED	c. THIS PAGE UNCLASSIFIED			19b. TELEPHONE NUMBER (include area code)

USAWC STRATEGY RESEARCH PROJECT

ARMY AND AIR FORCE EXCHANGE SERVICE (AAFES): ITS RELEVANCE

by

Colonel Fredrick J. Hannah
United States Army

Colonel Ronda Urey
Project Adviser

This SRP is submitted in partial fulfillment of the requirements of the Master of Strategic Studies Degree. The U.S. Army War College is accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools, 3624 Market Street, Philadelphia, PA 19104, (215) 662-5606. The Commission on Higher Education is an institutional accrediting agency recognized by the U.S. Secretary of Education and the Council for Higher Education Accreditation.

The views expressed in this student academic research paper are those of the author and do not reflect the official policy or position of the Department of the Army, Department of Defense, or the U.S. Government.

U.S. Army War College
CARLISLE BARRACKS, PENNSYLVANIA 17013

ABSTRACT

AUTHOR: Colonel Fredrick J. Hannah
TITLE: Army and Air Force Exchange Service (AAFES): Its Relevance
FORMAT: Strategy Research Project
DATE: 24 March 2011 WORD COUNT:5,045 PAGES: 28
KEY TERMS: Military Post Exchanges
CLASSIFICATION: Unclassified

Throughout an era of constant changes in global dynamics, technology, personnel reductions, base realignments, significant budget deficits and growing commercial retail competitors, many within the Department of Defense (DOD) have questioned the relevance of the Army and Air Force Exchange Services (AAFES). This Strategic Research Project (SRP) explores this issue through analysis of its governing statutes and regulations, its strategic mission, and the benefits it provides to its cliental. It finally considers whether competitive commercial retailers could better serve the military community - demonstrating that AAFES is a competitive retailer in today's global marketplace and maintains its strategic relevancy within DOD.

ARMY AND AIR FORCE EXCHANGE SERVICE (AAFES): ITS RELEVANCE

The Army and Air Force Exchange Service (AAFES) has been providing goods and services for military service members and their families for more than a hundred years. A Title 10 United States Code – Armed Forces directive from the Secretary of the Defense authorized a world-wide exchange stores system to enhance the quality of life for members of the uniformed services and other authorized patrons.¹ Department of Defense Instruction (DODI) 1015.15 characterizes AAFES as a Non-Appropriated Fund Instrumentality (NAFI). So AAFES is a Department of Defense (DOD-sponsored) organization that provides or assists the military service secretaries in providing for DOD personnel and their families.²

Furthermore, DODI 1015.15 requires that NAFls dissolve when their intended purpose no longer exists.³ This Strategic Research Project (SRP) considers in detail the current relevance of AAFES, which was established to provide goods and services to members of the uniformed services and other authorized patrons. Its profits have supported the Army and Air Force Morale, Welfare and Recreation programs. AAFES originated at a time when there were few retail stores. Also, most military installations were located in remote areas, far from most commercial activity. Without doubt, AAFES met a real need for our uniformed service members.

However, over the past century the world has changed drastically. Populations have grown. The locations of installations have changed. Commercial retail competitors are challenging AAFES's service to military consumers. Yet despite this continuous growth of the commercial retail market, AAFES continues to provide a valued service to members of the uniformed services and its authorized patrons.

At a time when our nation is at war, our political leaders at all levels are appealing for budget cuts across all agencies of our government, particularly the Department of Defense. It is apparent that many government agencies' utility and relevance are being called into question across the country. Therefore, in keeping with the instructions in DODI 1015.15, it is appropriate to consider the relevance and cost effectiveness of the Army and Air Force Exchange Service.

AAFES contributes significant funds to the Army and Air Force Morale Welfare and Recreation (MWR) programs that assist in paying for quality-of-life facilities on military installations worldwide, such as child care centers, libraries, and gymnasiums.⁴ This critical contribution of the AAFES strategic mission must be considered in any analysis of AAFES's relevance.

This SRP reviews the statutes and regulations governing the organization, its evolution, its strategic missions, and the benefits it provides to the uniformed services and its authorized patrons. It also compares AAFES with its commercial retail competitors. Finally, this project will offer recommendations and a concluding assessment of the relevancy of AAFES.

Evolution of AAFES

AAFES was launched in 1895, but the history of providing services and goods to military forces can be traced back to ancient Rome. And the American concept of the modern AAFES began during the Revolutionary War in 1776, when civilian traders supplied General Washington's army with personal demands. These civilian traders were called sutlers; they became an integral part of the US Army over the next hundred years. They provided non-military goods to troops. So sutlers served as a combination saloon keeper and general store operator.

In 1835, the Secretary of War issued regulations centralizing the operations of sutlers at a particular military post. Sutlers were granted four-year charters to operate with the equivalent rank of the most junior officer on the post. Strategic leaders of the time recognized the need to provide members of the armed forces a venue for purchasing non-military or personal demand items. Since this was an enduring demand, they wanted to institutionalize the sutlers' activities.

The implementation of the centralized operations for sutlers brought about its own set of challenges for strategic leaders. Sutlers monopolized the system and began selling low-quality merchandise at grossly high prices. Sutlers' abuses brought about a congressional decision to abolish the sutler system in 1866. This legislation charged the Army with the procurement and sale of goods and services to both officers and enlisted men at cost. The Army Inspector General (IG) was directed to monitor this activity. Thus the modern commissary system was born. Initially, it sold mostly unprepared food and canned items.⁵ However, due to the commissaries inability to meet demands – in part due to poor appropriations - the sutlers, under a new name of post traders, remained active on military posts. But they were only allowed to sell items that were not stocked by the commissary.

In 1870, Secretary of War, William W. Belknap, made significant changes to the operating authorities of the post traders. However, Belknap's changes again led to selling inferior merchandise at inflated prices. Later the Secretary of War was impeached by Congress on ethics charges – with irrefutable evidence that he was selling post trader positions to the highest bidders.

The impeachment of the Secretary of War, led to the implementation of the Army Appropriation Act of 1876. This Act established a check-and-balance system for appointing post traders. It allowed the Secretary of War to appoint post traders only with the recommendation of an administrative council and the commanding general of each Army installation. By 1880, the combined commissary and post trader system appeared to meet soldiers' needs for personal items.

Major Theodore Schwan, the Assistant Adjutant General for the Army was tasked by the Secretary of War to study the canteens and post traders: his study and report marked the birth of the modern military exchange system and of family morale, welfare, and recreation functions. The establishment of canteens at all military installations quickly led to the demise of the post trader. By 1892, Congress approved a request from the Army to abolish the post trader system in favor of the newly coined Post Exchange (PX).⁶

On 25 July 1895, General Order Number 46 directed the establishment of a Post Exchange "wherever practical."⁷ Paragraph 9 of the General Order Number 46 outlined the features of the Post Exchange:

An exchange doing its full work should embrace the following sections: (a) A well-stocked general store in which goods are kept as are usually required at military posts, and as extensive in number and variety as conditions will justify; (b) A well-kept lunch counter supplied with as great a variety of viands as circumstances permit, such as tea, coffee, cocoa, nonalcoholic drinks, soup, fish, cooked and canned meats, sandwiches, pastries, etc.; (c) A canteen at which...beer and light wines by the drink and tobaccos may be sold; (d) Reading and recreation rooms, supplied with books, periodicals and other reading matter, billiard and pool tables, bowling alley and facilities for proper indoor games, as well as apparatus for outdoor sports and exercises...a well-equipped gymnasium possessing also the requisite paraphernalia for outdoor athletics.⁸

Post Exchanges then operated independently until 1941. Each had its own policies, procedures, and practices for the execution of the exchange charter outlined in the General Order Number 46. These independent operations created much disparity among Post Exchanges, particularly among morale programs.⁹

In 1940, Post Exchanges were not designed to mobilize with their parent organizations and did not have the means to sustain their stocks while deployed. Lieutenant Colonel J. Edwin Grose envisioned the centralization of the Post Exchange system with a national headquarters. In his vision, the Army would assume responsibility for operating an extensive chain store system.¹⁰ Subsequently, a PX review committee of five prominent retail executives was formed and published its findings and recommendations in April 1941.

Chief of Staff of the Army General George C. Marshall endorsed the PX review committee's findings on 6 June 1941 and implemented the strategic decision by creating the Army Exchange Service (AES) under the Morale Branch of the War Department. In 1941 the first AES headquarters was established in Washington D.C.; the deputy chief and operating divisions were located in New York. In 1943, AES headquarters relocated to New York, where it remained until a strategic decision was made in 1966 to relocate the AES headquarters to Dallas, Texas, for worldwide operations.

An effort to centralize the management and control of the PX system began after World War II. In December 1945, AES began to build an experimental centralization system that grouped various exchanges into regions, consolidating many book-keeping and administrative functions for each region. Prior to centralization, installations with

less profitable exchange facilities could not generate sufficient funds to support MWR programs.

Army officials also identified the need to provide retail services to Soldiers everywhere. Lieutenant General Brehon B. Somervell, Commanding General of Army Services of Supply, articulated the AES strategic vision as “Exchange service to every soldier, every day, wherever he may be.”¹¹ The Army Exchange Service was later designated the Army and Air Force Exchange Service (AAFES) on 26 July 1948, following the National Security Act of 1947. In May of 1949, the Secretaries of the Army and Air Force decided to designate AAFES as a joint agency of the Departments of the Army and Air Force.

Today’s AAFES operates over 3,000 facilities worldwide in more than 30 countries, five U. S. territories and 50 states. AAFES is structured and managed to operate as a business with the ultimate goal of providing goods and services to its customers and providing funds to the Army and Air Force MWR programs.

The evolution of AAFES over the past century can be attributed to aggressive and sound strategic leadership. Key strategic decisions were driven by the interest of the profession and for the good of the uniformed service members, their families, and other authorized patrons.

Army and Air Force Exchange Services Governing Statutes and Regulations

Any analysis of the relevance of the Army and Air Force Exchange Services must fully review the statutes and regulations under which AAFES is governed. These statutes and regulations are set forth within Title 10 of the United States Code (USC) and Department of Defense Instruction (DODI) 1015.15.

The Secretary of Defense shall operate, in the manner provided by this chapter and other provisions of law, a world-wide system of commissary stores and a separate world-wide system of exchange stores. The stores of each system may sell, at reduced prices, food and other merchandise to members of the uniformed services on active duty, members of the uniformed services entitled to retired pay, dependents of such members, and persons authorized to use the system under chapter 54 of this title.¹²

Title 10 USC provides sufficient directives for the operation of AAFES exchange, but many AAFES patrons are totally unaware to this authority. Additionally, there is reason to believe that many of AAFES associates are oblivious to their employer's governing statutes and regulations. Lacking this knowledge, they are unprepared to sustain and even enhance the relevancy of AAFES through the lenses of the uniformed service member, their families, and other authorized patrons.

Department of Defense Instruction (DODI) 1015.15 is the second most important document for establishing the relevance of AAFES. AAFES and other non-appropriated fund instrumentalities (NAFI) are entities governed by DODI 1015.15 and have been established primarily for the purpose of providing Morale, Welfare, and Recreation (MWR) programs, armed services exchanges, and other support activities deemed necessary by the military service secretaries.¹³ AAFES is categorized as a Category C Non-appropriated Fund Instrumentality (NAFI), so it is governed as a revenue-generating activity.¹⁴ Category C NAFIs provide substantial dividends to the military services' Morale, Welfare, and Recreation programs.

NAFIs operations can be funded through both Congressionally appropriated funds (APF) and/or non-appropriated funds (NAF). This dual funding was examined extensively in previous analyses of AAFES relevancy, even though Category C activities such as AAFES receive only indirect APF support unless operating at remote or isolated locations.¹⁵ These austere facilities are authorized funding as Category B

activities. However, this SRP seeks to determine whether the aspect of DODI 1015.15 condition for dissolving a NAFI when their intended purposes cease to exist¹⁶ – applies to the current AAFES.

Though the Army and Air Force Exchange Service function as a joint entity, the other military services operate their own exchange systems. Accordingly, DOD publishes many instructions pertaining to the Armed Forces Exchanges. So, the Army and Air Force have codified many of their instructions into the latest document for governing AAFES: Army and Air Force Exchange Service Operations. This document includes all relevant sections of Army Regulation 215-8 and Air Force Instruction 34-211(I).¹⁷

The aforementioned statutes and regulations ultimately direct the leadership of the Army and Air Forces Exchange Service to develop a Strategic Plan for providing quality goods and services to their authorized patrons.

AAFES Organization and Leadership

The Army and Air Force Exchange Service is both a diverse and joint organization. It has a dual enduring mission to provide quality merchandise and services to its customers at competitively low prices and to generate earnings to support Morale, Welfare, and Recreation (MWR) programs.¹⁸ In determining the relevance of AAFES, we must consider its organizational structure.

AAFES Organizational Chart

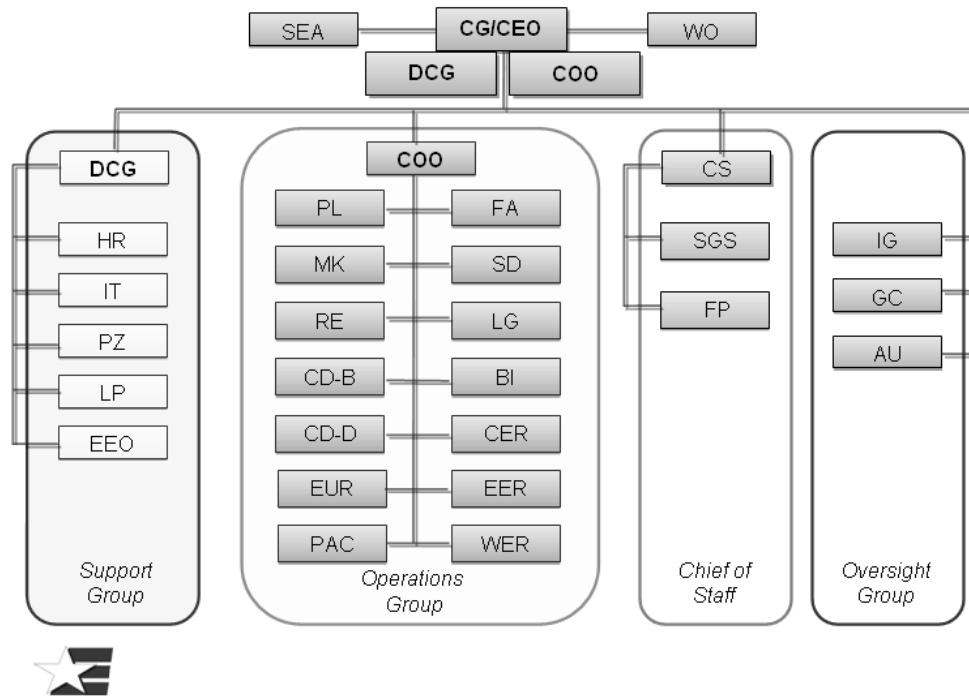


Figure 1. Army and Air Force Exchange Service, Organization Chart¹⁹

In 1972, the Chief of AAFES was designated Commander, AAFES for the first time in the organization's history – in keeping with military traditions. The AAFES Commander assumed responsibility for the total operation, management, and performance of the Army and Air Force Exchange Services world-wide.²⁰ Furthermore, the organizational change made the Commander, AAFES responsible to the Board of Directors, which in turn is responsible to the Service Secretaries.

As depicted in the organizational chart, the AAFES Commander is assigned a Deputy Commander and a Chief Operating Officer (COO) to advise him on all matters pertaining to the organization's operation, management, and performance. The AAFES Commander and the Deputy Commander are typically from different services and are usually assigned to their positions for two years. The Chief Operating

Officer is a permanent civilian Senior Executive Service (SES) position – with the equivalent rank of a Brigadier General.

The AAFES Commander is directly responsible for ensuring that the Army and Air Force Exchange Service is executing its mission in accordance with the organization's governing statutes and regulations. The Commander is directly responsible to the Board of Directors, who provide feedback to the two service secretaries.²¹

Roles, responsibility, and organization of the Army and Air Force Exchange Service Board of Directors (AAFES BOD) are outlined in the joint Army and Air Force Regulation entitled, *Directors, Army and Air Force Exchange Service (AAFES)*. This board provides checks and balances of AAFES operations. It is comprised of 18 positions distributed across the two services. Below are the standing members of the AAFES BOD by duty title:

1. Deputy Chief of Staff, G4, U.S. Army.
2. Deputy Chief of Staff, Manpower and Personnel, U.S. Air Force (USAF).
3. Deputy Assistant Secretary of the Army (Human Resources).
4. Deputy Assistant Secretary of the Air Force (Force Management Integration).
5. Deputy Assistant Secretary of the Army (Civilian Personnel/Quality of Life).
6. Deputy Assistant Secretary of the Air Force for Budget.
7. Chairman, Army and Air Force Exchange Service, Europe-Region Council.
8. Commander, AAFES.
9. Pacific Rim (PACRIM) member (Deputy Commander, U.S. Army Pacific or Vice Commander, Pacific Air Forces).

10. Assistant Deputy Chief of Staff, G1, U.S. Army.
11. Director of Services, USAF.
12. Reserve Component Representative (General Officer).
13. Commander, U.S. Army Family and Morale, Welfare, and Recreation Command (FMWRC).
14. Director of Budget Operations and Personnel, Deputy Assistant Secretary of the Air Force (Budget).
15. Sergeant Major of the Army.
16. Chief Master Sergeant of the Air Force.
17. Army member at-large for a one year appointment renewable up to three years.
18. Air Force member at-large for a one year appointment renewable up to three years.

At-large appointments will be extended to a minority or female member, if not already represented by one of the standing board members. The PACRIM member will serve in the same service as the chairman of the board, and the chairman, AAFES Europe Council will serve in the opposite service. Additionally, the AAFES BOD has a number of standing committees with specific duties.

The AAFES Commander, along with his leadership team and the AAFES BOD, lead all Army and Air Force Exchange Service functions and operations. This executive team is responsible for providing quality goods and services to their authorized patrons.

A Strategic Plan for Relevancy

We will continually trumpet the value story and relevancy of AAFES as a family market and combat multiplier – and never take our eyes off the mission and our patrons, the very reason we exist.²²

The current Army and Air Force Exchange Service leaders formulated five strategic goals within its 2015 Strategic Plan (only its second Strategic Plan in the history of the organization) for making AAFES relevant, responsive, and recognized.²³

The AAFES leadership asserts that the only constant for the future is change.²⁴ They formulated five Strategic Goals for guiding AAFES into 2015: (1) Develop a lifelong emotional connection with our customers; (2) Build a culture that: (a) promotes Associate loyalty and ownership; (b) encourages enterprise sustainability and continuous improvement; (3) Provide expeditionary and mission support capabilities...to “go where you go”; (4) Be the premier collaborative partner with federal and commercial entities; (5) Communicate the benefit, value and capabilities of AAFES.²⁵ These goals are the pillars on which the creditability of the Army and Air Force Exchange stands during this era of constant change.

Furthermore, the implementation and execution of strategic goals by the organizational leaders shape the organization’s culture. Organizational cultures can serve as either a catalyst or toxin for an organization as they are developed over time. They can be deeply rooted. They are expressed in the way people treat one another (friendly, formal, relaxed), the values they share (honesty, competitiveness, hard work), the routines that they follow in their meetings and exchanges of information, and so on.²⁶ This culture enables customers, stakeholders, and competitors to develop perceptions of the organization. The actions of the organization’s leaders and employees reflect the organization’s culture.

The foundation of any organization resides within its values. The AAFES Leadership specified eight values within the organization's 2015 Strategic Plan: Integrity, Trust, Accountability, Teamwork, Empowerment, Compassion, Risk Taking, and Creativity.²⁷ Organizations across the retail industry publish values that drive their employees' motivation to present both themselves and their organization to the customers in the best possible way. However, what separates great organizations from good organizations is the manner in which the leadership establishes those values and the method by which they are disseminated throughout the organization.

The Commander, Army and Air Force Exchange Service published these strategic goals and organizational values within the organization's 2015 Strategic Plan, in an effort of provide a roadmap for the 44,000 AAFES employees in achieving the organization's vision – to be our customers' first choice.²⁸

Does AAFES Provide a Benefit

It's important to raise awareness about how AAFES supports the community, our Soldiers and Families have so many choices of to where they spend their money – we they realize how much they and their communities benefit from spending those dollars right there on the installation, and they become loyal customers.²⁹

The Army and Air Force Exchange Service has been providing benefits to their authorized patrons since its inception 125 years ago. However, significant advances and growth in retail stores have brought about new challenges for AAFES as it seeks to be its customers' first choice.

In reality, AAFES benefits its authorized patrons on a daily basis in various ways to include making purchases at the main store, the shoppette, the gas station, the clothing sales store, or the concessionaire. AAFES customers enjoy the use of many Morale, Welfare, and Recreation facilities (such as day care centers, movies theaters,

bowling alleys, and fitness centers) that are supported through AAFES dividends on a daily basis as well.

Last year, AAFES provided a total annual savings of \$2,426 for every soldier and airman, based on troop strength taken from the Government Fiscal Year (GFY) Year-end Report. These savings were broken out into the following categories – Market Basket Savings (\$1,374), Sales Tax Savings (\$508), MWR Dividend (\$295), Military Star interest (\$246), and Service Projects (\$3).³⁰

Furthermore, AAFES distributed \$261.6 Million in dividends to the services' MWR Programs. These dividends were distributed to the services in the following manner - Army (\$152M), Air Force (\$89.9M), Marines (13.9M), National Guard (13.9M), and Navy (\$0.6M) – in support of the uniformed service members, their families, and authorized patrons from 2009 revenues.³¹

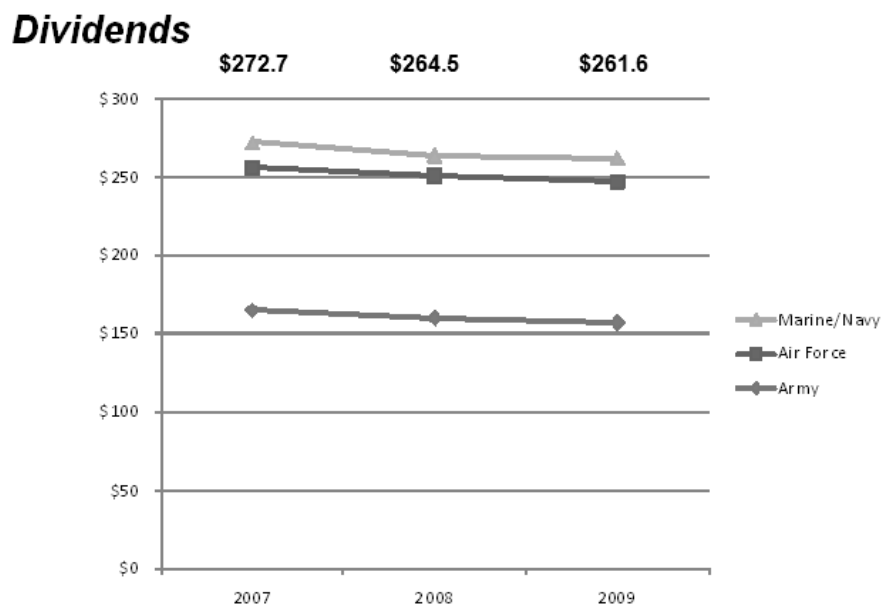


Figure 3: AAFES Dividends Distribution to Services (2007-2009)³²

Today's Army and Air Force Exchange Service is a billion-dollar industry. It recorded sales of nearly 9.8 billion dollars in 2009, increasing its sales by 26.3 million

dollars (excluding gasoline sales) from the previous year.³³ Additionally, AAFES employs 44,000 personnel, including 13,648 military family members, 2,809 veterans, and 76 wounded warriors. These dedicated employees carry out its retail missions around the world.³⁴

AAFES's many initiatives all seek to provide the best products, prices, and services to its customers, while operating as efficiently as possible so they can provide the highest dividends to Morale, Welfare, and Recreation programs for the soldiers and Air Force services for the airmen.³⁵

Stacking Up to the Competition

Research affirms that AAFES is extremely competitive within the commercial retail market, as it strives to provide all necessities to its 12.3 million customers across around the globe, and on the World Wide Web. AAFES remains one of two global retailers to maintain an AA+ bond rating – the highest in the industry.³⁶

Operating 177 main stores and 543 signature restaurants, along with 3,475 other retail operations and 1,096 brand name restaurants and numerous concessionaires – AAFES has the means to meet its customers' needs in a very competitive manner.³⁷

Nonetheless, many AAFES authorized patrons express displeasure for pricing and quality of goods and services provided at AAFES facilities. They claim that there is very little or no cost savings for AAFES customers - particularly for those authorized patrons that reside off the military installation. Many patrons of AAFES draw an unfair comparison to the operations of Wal-Mart. Although they are both retailers of goods and services, they are governed by different laws and serve totally different customer markets. AAFES is an entity of the Department of Defense. Wal-Mart operates on a similar scale as the U.S. Army from an industry perspective.³⁸ Counter to Wal-Mart and

other large retailers, AAFES considers its patrons' concerns in assessing its performance in comparison to its commercial competitors. AAFES utilizes several metrics to measure its progress toward achieving its vision of being its customers' first choice.

Aside from the organization's annual revenues, AAFES' Market Basket Survey is a snapshot in time that shows the industry's best practices to remain competitive. AAFES conducts local price surveys monthly to ensure that AAFES pricing is consistently competitive.³⁹

The latest AAFES Market Basket Survey was conducted in October 2008 at nine locations representative of all servicing regions. This survey documents more than an average of 20% savings for AAFES shoppers and is shown below.

Retailer	Savings	Department	Savings
7-Eleven	25.79%	Automotive	29.81%
Ace Hardware...	43.39%	Books	13.56%
Advance Auto...	26.06%	Boys	35.09%
Best Buy	10.60%	Cameras	6.57%
Books A Million	20.32%	Computers & Peripherals	22.34%
Borders	12.76%	Cosmetics	20.11%
Cabella's	14.82%	Electronics	13.97%
Circuit City	10.40%	Fashion	21.58%
CVS	24.62%	Jewelry	
Dillards	27.69%	Furniture - Juvenile	19.93%
Foot Locker	21.93%	Giftware	21.71%
Hallmark	20.33%	Girls	28.74%
Home Depot	9.45%	Greeting Cards	20.10%
JCPenney	21.85%	Handbags/Hosiery	20.10%
KB Toys	18.73%	Hardware	12.58%
Kmart	15.20%	Health & Beauty	20.93%
Lowes	21.77%	Household	23.72%
Macys	24.39%	Housewares	16.13%
Nebraska Furniture Mart	31.04%	Infants	16.68%
Office Depot	19.46%	Intimate Apparel	23.11%
		Ladies	25.41%

Office Max	13.68%	Luggage	56.29%
O'Reilly Auto Parts	27.09%	Magazines	8.59%
Pep Boys	30.99%	Major Appliances	23.44%
Publix	16.56%	Mens	27.01%
Quick Trip	2.51%	Retail Food	10.49%
Radio Shack	4.56%	Shoes	21.42%
Sears	26.53%	Small Appliances	9.18%
Sports Authority	21.22%	Sporting Goods	27.75%
Staples	10.43%	Stationery	31.43%
Target	8.45%	Sunglasses	22.64%
Walgreens	24.50%	Toys	17.03%
Wal-Mart	6.02%	Watches	16.41%

Figure 4: AAFES 2008 Market Basket Survey Results⁴⁰

Another metric that AAFES uses to measure its performance gets to the heart of its customers through the Customer Satisfaction Index (CSI). In 2009, AAFES customer satisfaction remained consistently at 73.⁴¹ AAFES provides better customer satisfaction than Wal-Mart and other industry leaders. AAFES credits its impressive customer satisfaction to its ability to leverage major technology to maintain industry-best inventory practices to keep tabs on all products and manage availability at their 177 main stores and 3,475 other retail operations around the world.⁴²

Additionally, AAFES provides many other advantages to the uniformed service member, their families, and other authorized patrons. AAFES should be its customer first choice because it exercises price matching, price cutting, clearances, and sales.⁴³ Signs advertising these additional savings can be found throughout AAFES facilities, all with varying meanings.

- (a) "We Price Match" – This sign indicates that AAFES will match any local competitor's price on identical merchandise – some restrictions may apply.
- (b) "Price Cut" – This sign indicates that AAFES has cut the price on these items in order to provide you the best local deals.

(c) “Clearance” – This sign indicates that AAFES has permanently marked down the price on these items.

(d) “Sale” – This sign indicates that AAFES has temporarily lowered prices on regular stock or new merchandise for a promotion.

Widespread use of these consumers incentives make AAFES competitive in any market where their authorized patrons resides and work.

Finally, AAFES applies a traditional military means of assessing itself through the Inspector General. A 2010 Inspector General (IG) Report indicates that AAFES is taking aggressive measures to know itself, to know how it is viewed by the customers, and to implement solutions to those areas that do not comply with AAFES standards. The AAFES Commander directed his Inspector General to evaluate the effectiveness of designated areas and programs of the Army and Air Force Exchange Service, focusing on the organization’s compliance with policies and procedures that have a direct impact on Strategic Goal #1 – Develop a life-long emotional connection with our customers, while spot-checking for compliance with corrective actions cited in the 2009 IG Inspection.⁴⁴

The AAFES’ IG Team visited 16 Exchanges and 20 Operation New Dawn/Operation Enduring Freedom (OND/OEF) locations in its effort to achieve the Commander’s intent for assessing compliance.⁴⁵ To determine customer satisfaction, the team looked at the following areas: (1) Satisfaction with sales associates and cashiers; (2) Operating hours; and (3) Motivation to shop at AAFES and other retailers. In each of these categories, AAFES customers reported the service was satisfactory, both at main stores and deployed locations.

“We Go Where You Go”

No other retailer deploys with the troops like AAFES, no one takes care of military families quite like AAFES, and no other store lives, breathes, and sleep military culture the same as AAFES.⁴⁶

The Army and Air Force Exchange Service originated from the need to provide goods and services to uniformed service members operating under austere conditions – and spearheads its strategic goal to provide expeditionary and mission support capabilities...to “go where you go.”⁴⁷

AAFES currently operates 131 stores in Afghanistan, Iraq, and other “contingency locations,” with 430 AAFES associates deployed throughout the Middle East⁴⁸ in support of the uniformed service members participating in combat operations within the region. To date, AAFES has deployed more than 4500 associates – sometimes more than once – to global hot spots since the start of the War on Terror after September 11, 1991.⁴⁹ AAFES is the only retailer to deploy employees into a combat environment.

Drawing a comparison to its earlier history, AAFES enables those units that operate away from areas near an AAFES run facility with intense battle rhythm to operate its own store. These stores are called “imprest-fund sites” because of the account through which AAFES provides start-up costs, which average about \$15,000.⁵⁰ Imprest Fund Sites (IFS) are considered a force multiplier at all levels of command. They provide necessities to those uniformed service members operating forbiddingly remote locations – truly enhancing their morale. IFS make no profit; all merchandise must be sold at AAFES prices. The revenues must be used to purchase more products, and upon closing the sites, all money must be returned to AAFES for other troop-run operations.⁵¹

Recommendation/Conclusion

The Army and Air Force Exchange Service provides a valuable service in today's military society, just as it had during its inception years. Its relevancy has continuously been on display during the past 10 years as our nation has been engaged in a persistent war. AAFES has been the single retailer providing goods and services for the uniformed service men and women, DOD civilians, and US contractors operating on foreign soil at times under the most austere conditions, executing their duties in defense of the interests of the United States of America – staying true to its motto “we go where you go”.

Despite the growth of commercial retail markets, growth in population, changes in military end strengths, and advances in technology, AAFES's relevancy continues. It serves its customers at home and aboard, in peacetime and conflict. It provides dividends to the services' morale, welfare, and recreation programs.

AAFES definitely provides cost savings for its customers while providing comparable goods and services as compared to the leading commercial retailers. Nevertheless, some authorized patrons remain unconvinced of AAFES's superior performances. However, statistical data shows that AAFES provides quality goods and services at a market savings of 20%, compared to the local leading retailer.

AAFES patrons' also report areas of improvement for the organization. AAFES is not fully connected to its authorized patrons and the communities in which they work and live. AAFES could attribute this disconnect to its governing statutes, which limits its ability to market itself outside government facilities. Nevertheless, there must be a

partnership with the installation commanders to ensure that these leaders fully understand the capabilities and benefits that the organization provides to its patrons.

Further, AAFES must sustain its credibility. It will remain relevant for only as long as its customers perceive its value. The solution to credibility starts with the culture of the organization. All parties must fully understand that AAFES is an entity of the Department of Defense. It exists for the purpose of providing goods and services primarily to the uniformed service members and subsequently to its other authorized patrons.

Finally, the services that AAFES provides its patrons serving outside the Continental United States coupled with the dividends it provides to the services' morale, welfare, and recreation programs – makes it more relevant today than at any other time in its history.

Endnotes

¹ *Title 10 U.S. Code – Armed Forces*, “Chapter 147 Commissaries and Exchanges and other Morale, Welfare and Recreation Activities,” (Washington DC: U.S. Government Printing Office, 2010).

² *Department of Defense Instruction Number 1015.15*, (Washington, DC: Government Printing Office, 2007).

³ Ibid.

⁴ U.S Army Family and Morale, Welfare and Recreation Command. *Distribution of the AAFES Dividends to the Services*, Memorandum 21 December 2007.

⁵ Colonel Carol A. Habgood and Lieutenant Colonel Marcia Skaer, *One Hundred Years of Service: A History of the Army and Air Force Exchange Service, 1895-1995*, ed. Cynthia Reiber (Dallas, Texas Headquarters Army and Air Force Exchange Service, 1994), 4.

⁶ Ibid., 17.

⁷ Ibid., 18.

⁸ Ibid., 19.

⁹ Ibid., 19.

¹⁰ Ibid., 22.

¹¹ Ibid., 29.

¹² *Title 10 U.S. Code – Armed Forces*, “Chapter 147 Commissaries and Exchanges and other Morale, Welfare and Recreation Activities,” Section 2481, (Washington DC: Government Printing Office, 2010).

¹³ *Department of Defense Instruction Number 1015.15*.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Roberto Salas, “*An Analysis of AAFES and its Relevance to the Future of the Army and Air Force*”, (Fort Leavenworth, KS), 33.

¹⁸ The Army and Air Force Exchange Service: *Strategic Plan 2015*, (AAFES Headquarters, Dallas, TX, 2011), 4.

¹⁹ AAFES Homepage, “*Newcomers Briefing*”, <http://shopmyexchange.com/docs/newcomers.htm> (accessed 17 February 2011).

²⁰ Habgood et al., 32.

²¹ *Army Regulation 15-110 and Air Force Instruction 34-203 Board of Directors, Army and Air Force Exchange Service (AAFES)*, “Direction and Control,” (Washington, DC: U.S. Government Printing Office, 2005).

²² MG Bruce Casella, “*The Army and Air Force Exchange Service: Annual Report 2009*”, (AAFES Headquarters, Dallas, TX, 2010), 1.

²³ The Army and Air Force Exchange Service: *Strategic Plan 2015*, (AAFES Headquarter, Dallas, TX, 2011), 3.

²⁴ Ibid.

²⁵ Ibid., 5.

²⁶ Michael Watkins, “*The First 90 Days*”, (Harvard Business School Press, Boston, MA, 2003), 54.

²⁷ The Army and Air Force Exchange Service: *Strategic Plan 2015*, (AAFES Headquarter, Dallas, TX, 2011), 5.

²⁸ Ibid., 4.

²⁹ Robin Hovey, quoted in William Bradner, "Savings at AAFES Translate Into Soldier and Family Support", February 20, 2008, linked from *United States Army Home Page*, <http://www.army.mil/-news/7515-savings-at-aafes> (accessed 17 February 2011).

³⁰ The Army and Air Force Exchange Service: *Strategic Plan 2015*, (AAFES Headquarters, Dallas, TX, 2011), 14.

³¹ The Army and Air Force Exchange Service: *"Annual Report 2009"*, (AAFES Headquarters, Dallas, TX, 2010), 10.

³² *Ibid.*, 10.

³³ *Ibid.*, 1.

³⁴ *Ibid.*, 9.

³⁵ *Ibid.*, 7.

³⁶ *Ibid.*, 1.

³⁷ *Ibid.*, 9.

³⁸ Dave Melcher, Bliss Hall Briefing "Industry Day 2011", Carlisle Barracks, PA.

³⁹ AAFES, *"The AAFES Value Story"*, <http://www.shopmyexchange.com/docs/valuestory.htm> (accessed 17 February 2011).

⁴⁰ *Ibid.*

⁴¹ The American Customer Satisfaction Index Homepage, "Scores by Company", <http://www.theacsi.org/index> (accessed 17 February 2011).

⁴² Army and Air Force Exchange Service: *"Annual Report 2009"*, (AAFES Headquarters, Dallas, TX, 2010), 6.

⁴³ AAFES, *"The AAFES Value Story"*, <http://www.shopmyexchange.com/docs/valuestory.htm> (accessed 17 February 2011).

⁴⁴ Commander, Army and Air Force Exchange Service MG Bruce A. Casella, "Inspector General Inspection Directive, 2010," memorandum for Inspector General, Dallas, TX, May 17, 2010.

⁴⁵ Inspector General COL Bryan T. Newkirk, "The Exchange Inspector General (IG) 2010 Inspection Program Final Report," memorandum for Commanding General, The Exchange, Dallas, TX, February 11, 2011.

⁴⁶ AAFES Chief Operating Officer, Michael Howard, The Army and Air Force Exchange Service, *"Annual Report 2009"*, (AAFES Headquarters, Dallas, TX, 2010), 6.

⁴⁷ The Army and Air Force Exchange Service *"Strategic Plan 2015"*, (AAFES Headquarters, Dallas, TX, 2011), 5.

⁴⁸ The Army and Air Force Exchange Service, “*Annual Report 2009*,” (AAFES Headquarters, Dallas, TX, 2010), 9.

⁴⁹ Ibid.

⁵⁰ Ibid., 13.

⁵¹ Ibid.